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Steering Committee of the Energy Efficiency 21 Project Group of Experts on Energy Efficiency Investments for Climate Change Mitigation

Sixteenth Session

Geneva, 20-22 October 2010

Report of the Group of Experts on energy efficiency investments for climate change mitigation on its sixteenth session

I. Attendance

1. The meeting was attended by the following member countries of the United Nations Economic Commission for Europe (UNECE): Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, France, Italy, Kazakhstan, Republic of Moldova, Russian Federation, Serbia, Tajikistan, the former Yugoslav Republic of Macedonia, Ukraine and Uzbekistan.
2. Syrian Arab Republic participated under Article 11 of the Commission's Terms of Reference.
3. Representatives of the Energy Charter Secretariat, Fonds Français pour l'Environnement Mondial (FFEM), the United Nations Department of Economic and Social Affairs (DESA), and the United Nations Foundation (UNF) participated in the meeting.
4. The meeting was also attended by representatives of the Conning Asset Management Limited (United Kingdom), Econoler International (Canada), EnEffect (Bulgaria), ICF International (Russian Federation), NBGI Private Equity Limited (United Kingdom) and Renaissance Finance International (United Kingdom).

II. Opening of the session

5. The meeting was opened by the Chair of the Group of Experts on Energy Efficiency Investments for Climate Change Mitigation Mr. Sergey Surnin. The Deputy Executive Secretary of the UNECE, Officer-in-Charge of the UNECE Sustainable Energy Division (SED) made opening remarks.

III. Adoption of the agenda (agenda item 1)

6. The agenda was adopted as contained in document ECE/ENERGY/WP.4/GE.1/2010/6 with amendments. The order of items has been changed as reflected in this report.

IV. Election of officers (agenda item 2)

7. The meeting confirmed the officers elected at the fifteenth session: Mr. Sergey Surnin (Ukraine) – Chair and Mr. Zdravko Genchev (Bulgaria) and Ms. Tatyana Pospelova (Belarus) – Vice-Chairs of the Group of Experts on Energy Efficiency Investments for Climate Change Mitigation.

V. Recent developments of the project “Financing energy efficiency and renewable energy investments for climate change mitigation” (FEEI) (agenda item 3)

8. The secretariat presented recent developments of the project. They include the following: interaction and coordination by the Project Management Unit (PMU) with EnEffect and Conning Asset Management Limited on the implementation of their contracts; the regional website for the project developed by EnEffect is fully functional; trainings on online communication have been conducted by EnEffect with the Project stakeholders; second submission of deliverables has been provided by Conning Asset Management Limited and candidate lead investor and investment fund manager identified; the first set of grants has been almost completed by the National Participating Institutions (NPIs) in accordance with their Memoranda of Understanding (MOU) with the UNECE; under the second set of grants, MOUs have been signed with five NPIs; two publications on inter-fuel substitution have been issued in English and Russian; Conference on implementation of energy efficiency projects in the Russian Federation and Seminar on preparation of bankable energy efficiency project proposals were conducted in Tomsk from 16-18 June 2010; International Energy Efficiency Forum and Workshop on Investments in Energy Efficiency and Renewable Energy Projects was organized in Astana from 28-30 September 2010; the third disbursement of funds have been received from FFEM and UNF; the third disbursement of funds by the United Nations Environment Programme / Global Environment Facility (UNEP/GEF) is still expected.

VI. Presentation of the work-in-progress by the project contractors: Development of a website and Internet communications network of energy efficiency managers in Eastern Europe (agenda item 4)

9. Representatives of EnEffect presented the current status of implementation of the contract for development of a website and Internet communications network of energy efficiency managers in Eastern Europe. The FEEI project regional website is fully functional and is being regularly updated. National webpages have been developed in English and Russian and/or national languages. The network database is maintained and updated. An Internet-based communication platform for on-line exchange, consultations and trainings has been developed. A draft standard electronic tool on development of energy efficiency and renewable energy projects business projects has been prepared.

10. Delegates suggested that EnEffect should be more proactive in asking countries to provide information and to specify what kind of information should be provided. The next step is to prepare for final publication the main project deliverables and continue publishing of the project newsletter with input from project partners. There was also a suggestion to use link between FEEI Project website and national websites for making the most updated national information available on the regional website.

VII. Outcome of the contract implementation by the Investment Fund Designer project contractor (agenda item 5)

11. Representatives of Conning Asset Management Limited presented the current status of implementation of the contract for the design of an investment fund. Candidate lead investor and investment fund manager – NBGI Private Equity – has been introduced as part of the presentation. Missions to the project countries have been conducted in the period since the last session of the Group of Experts (Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Republic of Moldova, Serbia, Kazakhstan, and Croatia). Meetings in the countries have shown good potential for indicative project pipeline to be ready by the time the investment fund is established and thus for the money to be invested in the energy efficiency and renewable energy projects soon after the launch of the fund. The FEEI project website <http://feei.info> may serve as a hub to submit project proposals for the investment fund.

12. Delegates noted the need for more transparency in establishing the investment fund and more information on the status of development and content of the investment fund documents. Delegates from the countries visited by representatives of Conning stated that the visits were very productive and that huge interest exists in their countries for the investment fund to be launched. Delegates also requested the investment fund designer Conning Asset Management Limited to speed up the necessary steps to launch an investment fund, to formulate the specific conditions and criteria for the investment projects to be eligible for applying to the fund once it is launched, and to outline clearly the procedure for such application.

13. Monitoring and Evaluation Adviser for the UNF presented the Interim Report on the implementation of the Financing Energy Efficiency Investments for Climate Change Mitigation Project for the Third Year of Project Operations (2010). Monitoring and Evaluation Adviser for the FFEM also presented his comments on implementation of the FEEI Project.

14. Representatives of the supporting institutions present at the session (UNF and FFEM) stated that they continue to support the development of the UNECE sponsored investment fund and proposed the following recommendations to help to ensure the fund will be as successful as possible:

(a) We believe the primary purpose of the fund should be to invest in energy efficiency projects, and this should be reflected in the composition of its portfolio at the end of the investment period, that a majority of the inventory will be in energy efficiency, and we recommend that the fund manager add staff expertise in energy efficiency;

(b) We believe equity and/or mezzanine investments may not be the most suitable approach to finance energy efficiency projects, as historically debt financing has predominantly been used; a review of a sample of the existing project proposals should be done as a matter of priority to better understand market demand and the most appropriate investment strategies;

(c) We believe developing the capacity to prepare project proposals that meet the needs of the fund is an immediate and top priority and in addition to building capacity in countries, a project preparation facility would help ensure suitably complete proposals are consistently submitted. Such a facility will also help elaborate innovative project structures whereby equity and/or mezzanine financing can be channeled to energy efficiency projects;

(d) We wish to highlight in support of the overall fundraising effort, that participating countries at the Ministerial Environment for Europe Conference held in Belgrade in 2007, stated in the final Ministerial Declaration that they “will consider participating as public sector investors in the energy efficiency investment fund”.

15. Delegates supported overall the recommendations proposed by the supporting institutions while emphasizing at the same time that it is premature to discuss the specific composition of a portfolio for the future investment fund and that the market conditions have to be taken into account.

VIII. Seminar on policy reforms to promote energy efficiency and renewable energy investment (agenda item 6)

16. The secretariat opened the Seminar and outlined its main objectives as stated in the provisional agenda (ECE/ENERGY/WP.4/GE.1/2010/6, para. 6). The Seminar is an opportunity to look more closely at the current status of energy efficiency and renewable energy policies in participating countries, at the key policy issues linked to reforms to promote energy efficiency and renewable energy investments, and at the progress achieved recently.

17. A representative of Conning Asset Management Limited made a presentation on relevance of policy reforms for energy efficiency and renewable energy investments. A representative of Renaissance Finance International made a presentation on the development of bankable projects. The types of investment risks and ways to decrease them were identified. A representative of the Efficiency Valuation Organization (EVO) made a presentation on measurement and verification of the energy efficiency projects, which may serve as an important tool in attracting investments by verifying the energy savings to be achieved by the implementation of a project. The presentation included overview of the International Performance Measurement and Verification Protocol (IPMVP) and International Energy Efficiency Financing Protocol (IEEFP). Delegates proposed training on measurement and verification of the energy efficiency projects to be included as a part of the business development courses for the project developers in the countries of the FEEI Project.

18. Delegates from Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Kazakhstan, Republic of Moldova, Russian Federation, Serbia, the former Yugoslav Republic of Macedonia, and Ukraine made presentations on the current status and recent progress in the policy reforms to promote energy efficiency and renewable energy investment.

19. The Monitoring and Evaluation Adviser for the FFEM proposed developing a template for a matrix to track progress in policy reforms in the area of energy efficiency and renewable energy in the participating countries. The proposal was supported by the delegates.

20. After discussion, the participants of the Seminar made the following conclusions:

(a) Although only limited time (half a year) passed since the finalization of the Regional Analysis of Policy Reforms to Promote Energy Efficiency (EE) and Renewable Energy (RE) and the country specific recommendations became available, the participating

countries have already made significant improvements and steps to overcome barriers for investments in EE and RE projects;

(b) To address specific legal, institutional and administrative barriers many project countries: (i) adopted new and/or additional primary and secondary legislation on EE and RE; (ii) established energy efficiency strategies and action plans for further development of energy sector; (iii) introduced or modified regulatory framework to implement EE and RE legislation; (iv) implemented governmental monitoring of legal framework; and (v) continued collection of statistical data and updates;

(c) In order to minimise the adverse affect of main economic and financial barriers many participating countries: (i) established programmes to attract public funds for financing EE and RE projects; (ii) introduced incentives for financing projects through local banks; (iii) strengthened available and introduced new financial schemes; (iv) increased electricity and heat tariffs to cover full costs; (v) introduced or adjusted feed-in tariffs for electricity; (vi) continued or started work on the development of energy auditing, energy management and cash flow analysis; and (vii) set the minimal energy efficiency standards;

(d) To overcome main barriers in the level of awareness, human capacity and professional skills the following activities have been organized in project countries: (i) workshops and seminars for government officials and municipal authorities engaged in preparation of reports on implementation of EE plans and programmes; (ii) training activities for local financial institutions and other representatives of private sectors; and (iii) training courses on municipal energy planning;

(e) The policy reforms that have already been introduced in the project countries and that are being further developed have a direct impact on promoting EE and RE investments;

(f) Although certain improvements have been made in this area, there are still barriers for EE and RE investments, including: (i) absence or lack of secondary legislation regulating EE and RE sector along with absence of adequate regulatory and legal framework for ESCOs; (ii) government control in regulating tariffs and energy consumption in some countries; (iii) limited capacity of transmission grids, which restricts possibilities for new RE power generation capacity; and (v) capital constraints due to high upfront costs and long payback periods;

(g) Constant work on overcoming the existing barriers and further actions are required to promote EE and RE investments. These actions may include: (i) improvement of the current legislative system and the system of monitoring and control of performance in achieving national indicative targets for energy savings; (ii) introducing new schemes for soft financing of EE and RE projects; (iii) enhancing administrative and institutional capacity if the area of EE and RE; (iv) awareness raising campaigns and long-term information activities to promote EE and RE projects; and (v) increasing international cooperation in this field;

(h) One of the urgent needs for promoting EE and RE investments is capacity building for local project developers on criteria and requirements for preparation of bankable EE and RE project proposals and ways for measurement and verification of savings from these projects. The awareness raising activities have to include also specific training courses for representatives of local banks and other financial institutions.

IX. Outcome of the International Energy Efficiency Forum and the Workshop on investments in energy efficiency and renewable energy projects (agenda item 7)

21. The secretariat made a presentation on the outcome of the International Energy Efficiency Forum and the Workshop on Investments in Energy Efficiency and Renewable Energy Projects, which took place in Astana, Kazakhstan from 28-30 September 2010. The Forum was held in parallel to the sixth Ministerial Conference on Environment and Development for Asia and the Pacific (MCED-6) and was organized jointly by the Government of Kazakhstan, the United Nations Economic Commission for Europe (UNECE), the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), the United Nations Environment Programme (UNEP), and the United Nations Development Programme (UNDP). The Forum was attended by over 120 delegates from more than 20 countries primarily from UNECE and ESCAP regions.

22. The Forum combined an assessment of EE and RE policy and legislative frameworks with the analysis of international best practices. The status and potential of EE and RE in various economic sectors (industry, fuel and energy, housing and communal services, public buildings, agriculture, transport etc.) has also been reviewed. Emphasis was given to energy efficiency in the residential and municipal sector, as one of the major sources of greenhouse gas emissions with large potential for improvements in energy efficiency. One of the two parallel workshops on the second day of the Forum – Green Buildings Workshop – was fully dedicated to this issue. Several presentations at the Plenary Sessions on the first day and at the Workshop on Investments in Energy Efficiency and Renewable Energy Projects were also dealing with EE and use of RE in the buildings sector, with specific examples from Croatia and Serbia in particular.

23. Several projects of the Energy Efficiency 21 (EE21) Programme contributed to the Forum and the Workshop, including FEEL, Global Energy Efficiency 21 (GEE21), and Development of the renewable energy sector in the Russian Federation and in countries of the Commonwealth of Independent States (CIS): prospects for interregional cooperation. In addition, colleagues representing UNECE Timber Section (Trade and Timber Division) and Housing and Land Management Unit (Environment, Housing and Land Management Division) participated and made presentations at the Forum.

24. It was noted that delegates of the International Energy Efficiency Forum expressed their appreciation to the Forum organizers for the opportunity to have stimulating and productive discussions on the issues of vital importance for their countries and organizations and proposed to make the International Energy Efficiency Forum a regular event. It was also stressed that cooperation between various organizations of the UN system involved in the work on energy efficiency and renewable energy is crucial for making the most of the available resources, avoiding duplication and finding areas for joint activities.

25. The complete Summary Report of the Forum is available at: http://www.unece.org/energy/se/docs/eneff_AstanaEEForum_Sept10.html.

X. Review of progress in implementation of grants by the National Participating Institutions (agenda item 8)

26. The secretariat presented an overview of the progress in implementation of grants by the National Participating Institutions in accordance with the Memoranda of Understanding (MOU) between the UNECE and the National Participating Institutions (NPIs). The NPIs of eight countries have fully completed the activities under their first MOU (Albania,

Belarus, Bulgaria, Croatia, Republic of Moldova, Russian Federation, Serbia and Ukraine). The NPIs of Kazakhstan and the former Yugoslav Republic of Macedonia are close to their completion. The NPI of Bosnia and Herzegovina has made a good progress in implementing the first MOU. The second set of MOUs with the NPIs in participating countries has been developed. The NPIs of five countries (Belarus, Bulgaria, Republic of Moldova, Russian Federation and Ukraine) have signed the second MOUs and started implementation of these grants. The first progress reports were submitted by the NPIs of Belarus, Russian Federation and Ukraine. The second MOUs with other NPIs that successfully completed the first MOUs are to be signed before the end of 2010.

27. Delegates representing NPIs made presentations on the progress in implementation of grants.

XI. Draft Work Plan for the fourth year of project operations (agenda item 9)

28. The secretariat presented the draft Work Plan for the Fourth Year of Project Operations (2011) (ECE/ENERGY/WP.4/GE.1/2010/8). Delegates expressed overall support for the document and proposed to introduce a few modifications. In particular, delegates requested to specify the dates for the Policy Seminar and the Workshop for international and local experts in 2011. Delegates also requested to make less specific a reference to a financing coordination unit throughout the document using instead the words "project preparation facility (financing coordination unit)".

XII. Other business (agenda item 10)

29. No other business was discussed under this agenda item.

XIII. Conclusions and recommendations (agenda item 11)

30. After discussion, the Group of Experts:

(a) *Took note* of the overall progress in implementation of the Financing Energy Efficiency and Renewable Energy Investments for Climate Change Mitigation (FEEI) Project since the 15th session of the Group of Experts in June 2010;

(b) *Noted with appreciation* the presentations of the Monitoring and Evaluation Advisers at the United Nations Foundation (UNF) and at the Fonds Français pour l'Environnement Mondial (FFEM) on the progress of the project implementation in the period since the 15th session of the Group of Experts in June 2010;

(c) *Approved* the conclusions of the Seminar on Policy Reforms to Promote Energy Efficiency and Renewable Energy Investments;

(d) *Invited* the Monitoring and Evaluation Adviser at the FFEM to develop a template for a matrix to track progress in policy reforms in the area of energy efficiency and renewable energy in the participating countries;

(e) *Invited* the participating countries to provide information for the policy reforms matrix after it is developed;

(f) *Requested* the Project Management Unit (PMU) to continue and speed up implementation of Energy Efficiency Business Development Course Programme to provide

capacity building for policy makers from the project countries and local project developers on preparation of bankable investment projects;

(g) *Took note* of the presentations on implementation of the contracts in the framework of the Project by EnEffect and Conning Asset Management Limited;

(h) *Welcomed* identification by Conning Asset Management Limited of NBGI Private Equity as the lead investor and as an investment fund manager for the launch of the public-private partnership energy efficiency and renewable energy investment fund for the 12 countries of the project;

(i) *Took note* of the recommendations by the representatives of the donor institutions present at the session to help ensuring that the investment fund will be as successful as possible;

(j) *Supported* the proposal of the donor institutions to make investments in energy efficiency projects a priority for the investment fund provided the appropriate market conditions for this exist and the relevant project pipeline is developed;

(k) *Recommended* to EnEffect, the National Coordinators and National Participating Institutions of the project countries to cooperate on continuous update of the regional website with relevant information and news;

(l) *Welcomed* the outcome of the Conference on Sharing Experience in Implementation of Energy Efficiency Projects in the Russian Federation (Federal District of Siberia) and the capacity-building Seminar on the Preparation of Bankable Energy Efficiency Project Proposals in Tomsk on 16-18 June 2010 and publication of analytical study on Potential and Best Alternatives for Investments in Implementing Interfuel Substitution in the Federal District of Siberia, Russian Federation;

(m) *Welcomed* the outcome of the International Energy Efficiency Forum and Workshop on Investments into Energy Efficiency and Renewable Energy Projects on 28-30 September 2010 in Astana, Kazakhstan;

(n) *Expressed appreciation* to the Government of Kazakhstan for hosting the Forum and the Workshop in Astana as a parallel event to the sixth Ministerial Conference on Environment and Development for Asia and the Pacific (MCED-6) and to the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), the United Nations Environment Programme (UNEP), and the United Nations Development Programme (UNDP) for co-organizing the International Energy Efficiency Forum;

(o) *Supported* the proposal expressed by the participants of the International Energy Efficiency Forum to make the Forum a regular event;

(p) *Expressed appreciation* to the National Participating Institutions of Albania, Croatia, Kazakhstan, Serbia, and the former Yugoslav Republic of Macedonia for the successful implementation of the grants under the first Memoranda of Understanding and provision of high quality data, information and analysis necessary for the overall progress of the Project;

(q) *Took note* of the progress in implementation of the grant under the first Memorandum of Understanding by the National Participating Institution of Bosnia and Herzegovina;

(r) *Took note* of the progress in implementation of the grants under the second Memoranda of Understanding by the National Participating Institutions of Belarus, Bulgaria, Russian Federation, and Ukraine;

(s) *Requested* the secretariat to prepare second Memoranda of Understanding with the National Participating Institutions who successfully completed their first Memoranda in accordance with the current Work Plan;

(t) *Approved* the draft Work Plan for the Fourth Year of Project Operations (2011) with revisions and comments received from the delegations;

(u) *Requested* the secretariat to provide venue and dates of the Workshop for international and local experts in the first quarter of 2011;

(v) *Took note* that the third disbursement of funds for the FEEI Project have been made by the Fonds Français pour l'Environnement Mondial (FFEM), the United Nations Foundation (UNF), and the United Nations Fund for International Partnership (UNFIP), and that the third disbursement of funds by the United Nations Environment Programme / Global Environment Facility (UNEP/GEF) is still expected;

(w) *Expressed* appreciation to UNF, UNFIP, the French Ministry of Foreign and European Affairs (MAEE) and FFEM, UNEP/GEF, and the European Business Congress e.V. for their support of the FEEI Project.

XIV. Dates of the next meeting (agenda item 12)

31. The seventeenth session of the Group of Experts on Energy Efficiency Investments for Climate Change Mitigation will be held on 19-20 April 2011.
